

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4416-01
Bill No.: SB 1074
Subject: Taxation and Revenue - Sales and Use; Tobacco Products
Type: Original
Date: March 19, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	\$81,247,935	\$192,000,000	\$190,200,000
Total Estimated Net Effect on <u>All</u> State Funds	\$81,247,935	\$192,000,000	\$190,200,000

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** and the **State Treasurer (STO)** assume this proposal will not fiscally impact their agencies.

Officials of the **Secretary of State (SOS), Elections Division** assume statewide newspaper publication of constitutional amendments cost approximately \$1,157 per column inch based on an estimate provided by the Missouri Press Service x 3 for multiple printings as required by the Constitution and the state statute = \$3,471 per column inch. SOS estimated the total number of inches for this amendment to be 15 inches, which includes a title header and certification paragraph (\$3,471 x 15 inches = \$52,065, estimated election costs).

Officials of the **Secretary of State (SOS), Administrative Rules Division** assume this bill authorizes the Department of Revenue to collect a cigarette tax and distribute the funds to "The Fair Share Fund" and the health initiatives fund. The funds are to be distributed to the Department of Elementary and Secondary Education, Department of Health and Senior Services and Department of Mental Health. The Department of Revenue may promulgate rules to implement this bill. These rules would be published in both the Missouri Register and the Code of State Regulations. The Department of Revenue may promulgate rules to implement this bill which could require as many as 4 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in Code. These costs are estimated to be \$246 for FY03. The estimated cost of a page in the Missouri Register is \$23.00. The estimated cost of a page in the Code of State Regulations is \$27.00. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials for the **Office of Administration, Budget and Planning (BAP)** assume this proposal would increase the state cigarette tax by 33 cents per pack. This would take it from 17 cents to 50 cents. It would also increase the "Other Tobacco Products" tax from 10% of wholesale price to 25% of wholesale price.

ASSUMPTION (continued)

Cigarette Tax Portion (33 cents increase)

Fiscal Year	Cigarette Tax Increase (millions)
2003	\$75.4
2004	\$177.8
2005	\$176.0

The BAP estimate is based on the following assumptions:

1. The average retail price for a pack of cigarettes in Missouri will be \$3.00 on January 1, 2003, the effective date of the increase.
2. The price elasticity of demand for cigarettes is -0.4 . Most scholarly studies place the price elasticity of demand for cigarettes at -0.3 to -0.5 .
3. The price increase and the elasticity of demand account for the price induced decline in demand at various levels.
4. There will be a 2% decline in sales due to anti-smoking activities funded by the Tobacco Settlement coupled with the state losing its relative tax “advantage” as the Missouri tax rises.
5. Base cigarette consumption is based on Fiscal Year 2002 sales to date and the assumption that a 1% annual decline would occur independent of the above factors.

The Fiscal Year 2003 increase represents a five-month total.

Other Tobacco Products (OTP)

BAP assumes the OTP tax is on pace to yield \$9.5 million in Fiscal Year 2002. Assuming no change in consumption of OTPs in Fiscal Year 2003 and beyond, increasing the OTP tax from 10% to 25% would yield the following:

ASSUMPTION (continued)

Fiscal Year	OTP Tax Increase (millions)
2003	\$5.9

2004 \$14.2

2005 \$14.2

BAP assumes an effective date of January 1, 2003, and thus five months of increased collections in FY 2003.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>Income</u> - General Revenue Fund			
Increase in cigarette tax	\$75,400,000	\$177,800,000	\$176,000,000
Increase in tobacco products tax	<u>\$5,900,000</u>	<u>\$14,200,000</u>	<u>\$14,200,000</u>
Total Income	\$81,300,000	\$192,000,000	\$190,200,000
<u>Cost</u> - Secretary of State			
Election costs	<u>(\$52,065)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$81,247,935</u>	<u>\$192,000,000</u>	<u>\$190,200,000</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

Small businesses that sell cigarette and tobacco products will need to collect and remit the increased tax.

DESCRIPTION

KS:LR:OD (12/01)

This act increases the cigarette tax to twenty-five mills per cigarette, or fifty cents per pack. This act also increases the tax on tobacco products other than cigarettes to twenty-five percent.

The increased revenue from these two tax changes shall be deposited in the general revenue fund.

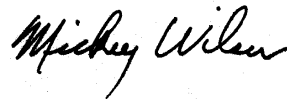
This act has a referendum clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
State Treasurer
Secretary of State
Office of Administration
Budget and Planning

Mickey Wilson, CPA

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Acting Director
March 19, 2002